No. 13120

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

TODD C. FAULKNER,

Appellant,

vs.

JOHN T. GIBBS,

Appellee.

REPLY BRIEF OF APPELLANT.

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Remarks Re: Appellee's Statement of the Case.

There is no support in the record for appellee's repeated assertions that the infringement herein was wilful, deliberate or wanton. Original Finding XIII quoted by appellee does not support said assertions. It merely states that the appellant's Fawn game was "derived" from a game of Looff in Long Beach, which had been copied from a Gibbs game in Santa Monica. Said Looff game had been operating in Long Beach for over three years before Faulkner built his Fawn game in 1944.

There is no evidence whatsoever that Faulkner knew Looff's game was a copy of the Gibbs game, or that he ever heard of Gibbs' patent until he was sued in 1946.

That the changes made by Faulkner from his original game to his modified game were not "inconsequential,"

is shown by the Court holding that said modified game did not infringe three claims infringed by the original game. The modified game was injected into this case at the insistence of undersigned counsel for Faulkner who believed then (and still believes) that said modified game did not infringe *any* of the Gibbs claims. Appellee's innuendoes of bad faith in the appeals are unwarranted and unsupported.

Appellee's assertions that Faulkner failed to keep records of his Fawn game business are direct misstatements. Throughout his deposition, Faulkner repeatedly stated that he employed a bookkeeper, and she could and would explain all the records. See statements at [R. 77, 78, 80, 81, 82, 84, 90] and particularly at [R. 80], "She is our trusted employee. She is a competent bookkeeper," and on [R. 81], "So I put a check system on, and we checked them. Hilda has everything—to check by. We check their receipts and it is a double check on them every day." And see page 11 of appellee's brief calling attention to the deposition of Hilda Potter where all the books and records were displayed to Mr. Herzig.

With respect to Gibbs' guesses as to appellant's income, appellant's complete books and records were made available to appellee on depositions, and there certainly was no burden on appellant to produce evidence to contradict Mr. Gibbs' flights into speculative fancy concerning appellant's income.

With respect to the so-called "three types of proof," offered by Gibbs, only his licenses Exhibits A-1 to A-10 (Type 1), are worthy of the name "evidence." Types 2 and 3 are mere speculative opinions of Gibbs with no basis in fact. They were wishful thoughts enunciated by Gibbs on his deposition.

Summary of Argument.

A.

THE TRIAL COURT WAS CORRECT IN APPLYING THE REASONABLE ROYALTY RULE OF DAMAGES HEREIN, AND IN USING THE LICENSE AGREEMENTS, APPELLEE'S EXHIBITS A-1 TO A-10 IN DETERMINING THE ROYALTY; BUT THE COURT MISINTERPRETED SAID AGREEMENTS AND REACHED A WRONG RESULT.

1. The Looff Agreement Exhibit A-10, Is the Best Evidence Before the Court as to a Reasonable Royalty Herein.
2. Of Agreements, Exhibits A-1 to A-9, Only Exhibit A-9 Is Helpful in Ascertaining a Reasonable Royalty in This Case.
3. Neither of Said License Agreements Supports the Judgment Below.

B.

THAT THE JUDGMENT BELOW IS NOT SUPPORTED BY THE RECORD, IS MANIFEST FROM THE MANY ADMISSIONS INHERENT IN APPELLEE'S BRIEF.

1. Appellant's Analyses of Appellee's Written License Agreements, Exhibits A-1 to A-10, Showing That They Do Not Support the Judgment, Stand Uncontradicted and Therefore Admitted.
2. Appellee's Reliance on His Oral Licenses Is an Admission That His Written Licenses Exhibits A-1 to A-10 Do Not Support the Judgment.
3. Appellee's Reliance on a Wholly Fictitious Value for the Long Beach License (Different From That Set Forth in the Looff Agreement) Is an Admission that his License Agreements Do Not Support the Judgment.

4. Appellee's Reliance on His Unsupported Speculations as to Appellant's Possible Income Is an Admission That Appellee's License Agreements Do Not Support the Judgment.

5. Appellee's Position That He Is Entitled to More Than a Reasonable Royalty Is an Admission That the Court's Finding as to the Royalty Is Not Supported by the Evidence.

6. Appellee's Assertion (Unsupported in the Record) That the Infringement Herein Was Wilful and Wanton Is an Admission That the Judgment Below Is Excessive Unless It Is Deemed to Include Punitive as Well as Compensatory Damages, But No Award of Punitive Damages Was Made by the Court.

7. Appellee's Request That This Court Increase the Judgment Is an Admission That the Judgment Below Cannot Be Supported on Its Merits.

C.

USING THE BEST EVIDENCE AVAILABLE HEREIN, TO-WIT: THE LOOFF LONG BEACH AGREEMENT, EXHIBIT A-10, AS A BASIS FOR COMPARISON, THE REASONABLE ROYALTY ASSESSABLE TO APPELLANT IS ONLY $806.00 PER YEAR, MAKING THE TOTAL JUDGMENT $4,433.00.

D.

THERE IS NO SUPPORT IN THE RECORD FOR APPELLEE'S ASSERTION IN POINT II OF HIS BRIEF THAT APPELLANT EITHER DELIBERATELY INFRINGED OR FOLLOWED OBSTRUCTIONIST TACTICS HEREIN.

ARGUMENT.

A.

The Trial Court Was Correct in Applying the Reasonable Royalty Rule of Damages Herein, and in Using the License Agreements, Appellee's Exhibits A-1 to A-10 in Determining the Royalty; But the Court Misinterpreted Said Agreements and Reached a Wrong Result.

We concur with the statement by appellee on page 5 of his Brief, that "Prior to the 1946 amendment to R. S. 4921, there were many Court decisions approving an established royalty as a measure of damages against infringers," that "*the general principles involved were carried over into the amendment.* * * * and that what is reasonable royalty may be determined by reference to existing license agreements."

We further concur with appellee's statement on page 6 of his Brief that "what constitutes a reasonable royalty under the *new law* seems to be based upon the same principles as the determination of reasonable royalty for the purpose of fixing damages under the *old law.* Thus an established royalty actually in effect between the patentee and one or more licensees has frequently been accepted as reasonable royalty";

Such is our case here.

Appellee has introduced into evidence ten written license agreements, Exhibits A-1 to A-10, inclusive, covering various parts of the country, which agreements have been fully analyzed in our Opening Brief. The only

other evidence before the Court is appellee's uncorroborated statement that he had several *oral* licenses, but no details other than the alleged royalty rates were given, although it is inferable that at least two of these, if any there were, involved games much larger than those operated by appellant.

Clearly, as between the complete *written* agreements in evidence, and the alleged indefinite and uncorroborated *oral* agreements, the former are the best evidence, and must control in any conflicts there between.

1. **The Looff Agreement Exhibit A-10, Is the Best Evidence Before the Court as to a Reasonable Royalty Herein.**

The Looff Long Beach license Exhibit A-10, is the only one of all appellee's licenses that is in the same amusement zone as appellant's operations. Exhibits A-1 to A-9 were all in the East, and were for different types of climates and conditions.

The Looff agreement is therefore the best evidence before the Court relative to the question of "Reasonable Royalty," *but only when carefully scrutinized and analyzed for what the parties actually agreed to,*—which was quite different from what they recited in the written instrument.

Although this agreement purports to "establish" a $3,000.00 per year royalty, *in fact,* it only established an average royalty of $1,611.00 per year for Looff's two locations. Since appellant only operated one location, his royalty on the basis of the Looff agreement is $806.00 per year, rather than the $3,000.00 found by the Trial Court.

2. Of Agreements Exhibits A-1 to A-9, Only Exhibit A-9 Is Helpful in Ascertaining a Reasonable Royalty in This Case.

As pointed out in Sections II and IV of our Opening Brief, all of the Eastern licenses, other than the O'Brien New England license, are inapplicable to our problem here for one reason or another. Since none of these other licenses calls for a royalty in excess of $2,000.00 per year, there appears to be no controversy with respect thereto.

3. Neither the Looff nor the New England Agreements Support the Judgment Below.

As above pointed out, the Looff Agreement, covering a total period of nine years, 1941-1950, provides an average royalty of only $1,611.00 per year, for two locations of 32 units each, *whereas appellant operated but one establishment of 32 units.* The New England agreement with O'Brien, covered three separate establishments of 50 units each, for an average of $1,200.00 royalty per year per establishment, or a per unit royalty of $24.00 as compared to $25.00 for Looff.

Obviously, neither of these agreements is support for the Trial Court's finding that $3,000.00 per year would have been a reasonable royalty for appellant to pay if he and appellee had freely negotiated a license.

B.

That the Judgment Below Is Not Supported by the Record, Is Manifest From the Many Admissions Inherent in Appellee's Brief.

Appellee's brief is significant not for what it says, *but for what is left unsaid, and for its implications.* It being clear that Exhibits A-1 to A-10 are the only credible evidence before the Court, appellee's renunciation of said exhibits in favor of uncorroborated, indefinite, oral testimony, and tenuous legal theories amounts to a blanket admission that the judgment below finds no support in appellee's said license agreements, Exhibits A-1 to A-10.

1. Appellant's Analyses of Appellee's Written License Agreements, Exhibits A-1 to A-10, Showing That They Do Not Support the Judgment, Stand Uncontradicted and Therefore Admitted.

Appellee devotes but a single sentence (pp. 6, 7) to our analysis, stating merely that we are in error, and that the licenses show the figure of $3,000.00 per year to be "approximately" correct. *Nothing is said in substantiation of his bald statement!*

Appellee then proceeds to call attention to his oral testimony as to his so-called "basis" used in granting licenses, although admittedly numerous licenses were granted on *other* bases. Appellee's silence as to his written agreements, Exhibits A-1 to A-10, is a clear admission that they do not support his judgment.

2. **Appellee's Reliance on His Oral Licenses Is an Admission That His Written Licenses Exhibits A-1 to A-10 Do Not Support the Judgment.**

If appellee could show that *even one of his written licenses* averaged $3,000.00 per year for an installation comparable to appellant's, his comments on his *oral licenses* could at least be considered cumulative, even though very weak.

But when there is not one statement in Appellee's Brief tending to show that his written agreements, Exhibits A-1 to A-10, support the judgment below, his reliance on his alleged oral agreements is a clear admission that, weak as they are, they are the best evidence he can muster to try and support his judgment.

3. **Appellee's Reliance on a Wholly Fictitious Value for the Long Beach License (Different From That Set Forth in the Looff Agreement) Is an Admission That the License Agreements Do Not Support the Judgment.**

What appellee really thinks of the ability to support his judgment of his written license agreements, Exhibits A-1 to A-10, is best demonstrated by his statement on page 7 of his Brief, that:

> "*For appellee's purpose, the licenses may all be disregarded* in favor of Mr. Gibbs' opinion [R. 41] that the location was worth *about* $10,000.00 per year license fee."

In other words, appellee, by his silence relative to his written licenses, together with the above assertion, states as plainly as possible, that he has no confidence in his license agreements to support his judgment, and seeks to rely on his own opinion of a higher value, based on purely hypothetical grounds.

If Exhibit A-10 had any probative value in support of the judgment, appellee certainly would not assert his opinion in conflict therewith.

4. Appellee's Reliance on His Unsupported Speculations as to Appellant's Possible Income, Is an Admission That Appellee's License Agreements Do Not Support the Judgment.

The situation here is substantially the same as in paragraph 3 above. On pages 3 and 4 of his Brief, appellee postulates *his opinion on what Faulkner might have received* in the operation of his Fawn games, and on page 7 he proposes this heady theory of recovery in lieu of that used in his license, Exhibits A-1 to A-10.

Could there be any clearer admission that appellee's license agreements do not support his judgment? If they do, why does he decline to point out, at least briefly, *how just one such agreement* serves as a legitimate basis for the Court's findings?

5. Appellee's Contention That Under the Statute He Is Entitled to More Than a Reasonable Royalty, Is an Admission That the Court's Finding Relative to a Reasonable Royalty Is Not Supported by the Evidence.

Finding No. VI states in part as follows:

> "The Court finds that a *reasonable royalty* to be paid by defendant to plaintiff Gibbs for infringement of his Letters Patent as hereinbefore found, would be the amount of *average royalty* paid by several licensees to Gibbs under the license agreements referred to in paragraph I of these findings, *and also the amount of average royalty paid by licensee Looff* for the years 1948 and 1949, namely, Three Thousand ($3,000.00) Dollars per year."

How could the Trial Court have stated any more clearly or positively that it was attempting to follow the reasonable royalty rule, but that the Court was under the misapprehension that the license agreements provided for a royalty of $3,000.00 per year. (As we have shown, however, none of appellee's Exhibits A-1 to A-10 do so.)

Appellee must have grave doubts as to the soundness of Finding VI, or he would not stress the contention in pages 5 to 9 of his Brief that the 1946 statute "authorized judgment for general damages" *not less than* a reasonable royalty. And that (p. 8), while the Trial Court chose $3,000.00 per year as "an established royalty * * * *it was not bound to do so.*"

Appellee recognizes that the judgment is excessive, and is trying to lay a foundation for arguing that the judgment (contrary to the Court's express statement) includes something in addition to a "reasonable royalty." This is, of course, contrary to the facts and untenable.

6. Appellee's Assertion (Unsupported in the Record) That the Infringement Herein Was Wilful and Wanton, Is an Admission That the Judgment Below Is Excessive Unless It Is Deemed to Include Punitive as Well as Compensatory Damages, But No Award of Punitive Damages Was Made by the Court.

Appellee, realizing that our figure of $4,433.00 is rational, reasonable, and the maximum to which he is entitled as *compensatory damages* under the statute, seeks to inject a new factor into the case, *i. e.*, punitive damages based on his *unsupported allegations* of wilful infringement in order to make up the difference between $4,433.00 and the $15,000.00 award given him by the Trial Court. *This of course is improper, since the Trial Court expressly awarded compensatory damages only,*

and by its failure to find that appellee was entitled to any increase thereof, denied punitive damages in a judgment which is now final and unappealable by appellee.

7. Appellee's Request That This Court Increase the Judgment Is an Admission That the Judgment Below Cannot Be Supported on Its Merits.

Appellee's request that this Court increase the judgment appears to be a smoke-screen raised on the theory that the best defense is a strong offense.

It is axiomatic that no modification of a judgment can be made on appeal in favor of a party not appealing therefrom. *Absent a notice of appeal, the Circuit Court has no jurisdiction,* and this is just as true with respect to an appellee who fails to file a cross-appeal, as it is with any other party as to whom the judgment has become final.

A cross-appeal is necessary in order to assert points which go beyond a mere support of the judgment below.

> "Thus it was stated in *Arkansas Fuel Oil Co. vs. Leisk,* 133 F. 2d 69, that in the absence of a cross-appeal, *appellee may not attempt either to enlarge his rights* under the judgment appealed from, or to lessen the rights of his adversary."
>
> 10 Cyc. of Fed. Proc. 697.

It was said in *Swig v. Tremont Trust Co.* (1st Cir.), 8 F. 2d 943, 945, as follows:

> "But the trust company did not except to this ruling, so far as the record shows, *and has filed no cross-appeal* and assignment of errors complaining of it. We are therefore of the opinion that this question is not before us."

And see also:

Neece v. Durst, 61 F. 2d 591 (C. C. A. 9).

C.

Using the Best Evidence Available Herein, To-wit: the Looff Long Beach Agreement, Exhibit A-10, as a Basis for Comparison, the Reasonable Royalty Assessable to Appellant Is Only $806.00 Per Year, Making the Total Judgment $4,433.00.

The Looff agreement, on its face, was made with this present litigation in mind, for it recited in paragraph 6 thereof, that Gibbs would immediately bring suit against Faulkner, the appellant herein.

The provision of paragraph 5 that the last two installment payments of $3,000.00 were to be considered royalty for the last two years, is of course pure window dressing in anticipation of the day when Gibbs might get a judgment against Faulkner, and could then use the Looff agreement to "establish" a fictitious royalty to be presented to the Court herein as a measure of damages.

However, as we have seen, the total consideration paid by Looff for his nine years of operations was only $14,500.00 (exclusive of his contributions to the cost of this suit) which makes an average royalty of only $1,611.00 per year for the full term of the license. Obviously, the rights granted to Looff were no more valuable the last two years of the agreement than they were during earlier years, and hence on its face, the agreement was a collusive attempt by appellee and Looff to create a picture which would allow Gibbs to request, as he has here done, an excessive award of damages.

In summary, it is thus seen with respect to appellee's Point I that it contains facts indicating seven separate admissions of the unsupportability of the judgment below on the basis used by the Trial Court, *i. e.*, on the "reason-

able royalty rule." It would seem clear that appellee has in effect conceded the correctness of our position that the judgment should be reduced to $4,433.00.

D.

There Is No Support in the Record for Appellee's Assertion in Point II of His Brief That Appellant Either Deliberately Infringed, or Followed Obstructionist Tactics Herein.

This matter of the alleged deliberateness of appellant's actions was discussed earlier herein. Suffice it to say at this point, that there is no evidence in the record indicating that appellant herein has done more than defend himself against an ordinary patent suit, raising the usual defenses and taking the allowable appeals.

If a defendant is an obstructionist, merely because he avails himself of counsel's advice, and pursues all defenses and appeals open to him in an honest endeavor to prove the justice of his cause, then the fundamentals of our jurisprudence are in a sad shape indeed.

There is in this case nothing whatsoever that brings it within the rule of this Circuit recently laid down in the case of *Park-In Theatres v. Perkins,* 190 F. 2d 137, 90 USPQ 163, wherein this Court said with respect to the allowance of attorneys' fees in patent cases:

> "But in granting this power, Congress made plain its intention that such fees be allowed *only in extraordinary circumstances.* * * *
>
> "Thus, the payment of attorneys' fees for the victor *is not to be regarded as a penalty* for failure to win a patent suit. The exercise of discretion in favor of such an allowance should be bottomed upon a *finding of unfairness or bad faith* in the conduct

of the losing party, or some other equitable consideration of similar force, which makes it *grossly unjust* that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear. The cases support this view." (Emphasis added.)

The *Park-In* case was followed recently by this Court in the case of *Day-Brite Lighting v. Ruby Lighting* (decided August 9, 1951), 91 USPQ 225.

We agree with appellee that *"attorneys' fees in patent cases should be the exception and not the rule." We do not however,* believe that this case comes within the exception of the above-cited cases, which have been reported since the decision of the Trial Court herein.

It is believed that if the hearing in this case had been subsequent to the above cited cases, Judge Yankwich would not have allowed any additional attorneys' fees to appellee herein.

Respectfully submitted,

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